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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BEC1844 – MACROECONOMICS

(All sections/Groups)

01 MARCH 2016
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SEVEN (7)** printed pages with:
Section A: Forty (40) multiple-choice questions
Section B: Three (3) structured questions
2. Answer **ALL** questions.
3. Please print all your answers in the OCR sheet and Answer Booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 marks)

1. Which of the following is a way to compute GDP?
 - A. Add up the wages paid to all workers
 - B. Add up the quantities of all final goods and services
 - C. Add up the market values of all final goods and services
 - D. Add up the difference between the market values of all final goods and services and then subtract the costs of producing those goods and services
2. Zack owns two houses. He rents one house to the Ali family for RM10,000 per year. He lives in the other house. If he were to rent the house in which he lives, he could earn RM12,000 per year in rent. How much do the housing services provided by the two houses contribute to GDP?
 - A. RM0
 - B. RM10,000
 - C. RM12,000
 - D. RM22,000
3. Rose, a Malaysian citizen prepares meals for her family at home. Elly, a Singaporean citizen commutes to Malaysia to help prepare meals at a restaurant in Kuala Lumpur. Whose value of services preparing meals is included in Malaysia GDP?
 - A. Rose's and Elly's
 - B. Rose's but not Elly's
 - C. Elly's but not Rose's
 - D. Neither Rose's nor Elly's
4. Changes in real GDP reflect
 - A. Only changes in prices
 - B. Only changes in the amounts being produced
 - C. Both changes in prices and changes in the amounts being produced
 - D. Neither changes in prices nor changes in the amounts being produced
5. When the consumer price index falls, the typical family
 - A. Has to spend more ringgit (RM) to maintain the same standard of living
 - B. Can spend fewer ringgit (RM) to maintain the same standard of living
 - C. Finds that its standard of living is not affected
 - D. Can save less because they do not need to offset the effects of rising prices
6. What basket of goods and services is used to construct the CPI?
 - A. A random sample of all goods and services produced in the economy
 - B. The goods and services that are typically bought by consumers as determined by government surveys
 - C. Only food, clothing, transportation, entertainment, and education
 - D. The least expensive and the most expensive goods and services in each major category of consumer expenditures

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The table below pertains to XYZ, an economy in which the typical consumer's basket consists of 10 bags of oranges and 15 bags of apples.

Table 1

Year	Price of Oranges	Price of Apples
2014	RM11 per bag	RM6 per bag
2015	RM9 per bag	RM10 per bag

7. Refer to Table 1. The cost of the basket in 2014 was
 - A. RM200
 - B. RM210
 - C. RM240
 - D. RM245
8. Refer to Table 1. If 2014 is the base year, then the CPI for 2015 was
 - A. 83.3
 - B. 100
 - C. 120
 - D. 200
9. Danny is opening a bicycle shop, and his monthly expenditures to get the shop up and running exceed his monthly income. Danny is best described as a
 - A. saver or as a supplier of funds
 - B. saver or as a demander of funds
 - C. borrower or as a supplier of funds
 - D. borrower or as a demander of funds
10. If the government's expenditures exceeded its receipts, it would likely
 - A. Lend money to a bank or other financial intermediary
 - B. Borrow money from a bank or other financial intermediary
 - C. Buy bonds directly from the public
 - D. Sell bonds directly to the public
11. What do we call financial institutions through which savers can indirectly provide funds to borrowers?
 - A. Stock markets
 - B. Financial institutions
 - C. Financial markets
 - D. Financial intermediaries
12. According to the definitions of private and public saving, if Y , C , and G remained the same, an increase in taxes would
 - A. Raise both private and public saving
 - B. Raise private saving and lower public saving
 - C. Lower private saving and raise public saving
 - D. Lower private and public saving

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13. Lee puts money into an X Bank so that he can spend it later. What function of money does this illustrate?
- A. Store of value
 - B. Medium of exchange
 - C. Unit of account
 - D. None of the above is correct
14. Money is the most liquid asset available because
- A. It is a store of value
 - B. It is a medium of exchange
 - C. It is a unit of account
 - D. It has intrinsic value
15. A bank has a 10 percent reserve requirement, RM5,000 in deposits, and has loaned out all it can given the reserve requirement
- A. It has RM50 in reserves and RM4,950 in loans
 - B. It has RM500 in reserves and RM4,500 in loans
 - C. It has RM555 in reserves and RM4,445 in loans
 - D. None of the above is correct
16. The money multiplier equals
- A. $1/R$, where R represents the quantity of reserves in the economy
 - B. $1/R$, where R represents the reserve ratio for all banks in the economy
 - C. $1/(1+R)$, where R represents the quantity of reserves in the economy
 - D. $1/(1+R)$, where R represents the reserve ratio for all banks in the economy
17. As the price level decreases, the value of money
- A. Increases, so people want to hold more of it
 - B. Increases, so people want to hold less of it
 - C. Decreases, so people want to hold more of it
 - D. Decreases, so people want to hold less of it
18. When the money market is drawn with the value of money on the vertical axis, as the price level increases, the quantity of money
- A. Demanded increases
 - B. Demanded decreases
 - C. Supplied increases
 - D. Supplied decreases
19. An assistant manager at a restaurant gets a RM100 a month raise. He figures that with his new monthly salary he cannot buy as many goods and services as he could buy last year. This is because
- A. His real and nominal salary have risen
 - B. His real and nominal salary have fallen
 - C. His real salary has risen and his nominal salary has fallen
 - D. His real salary has fallen and his nominal salary has risen

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20. According to the assumptions of the quantity theory of money, if the money supply increases by 5 percent, then
- A. Nominal and real GDP would rise by 5 percent
 - B. Nominal GDP would rise by 5 percent; real GDP would be unchanged
 - C. Nominal GDP would be unchanged; real GDP would rise by 5 percent
 - D. Neither nominal GDP, nor real GDP would change
21. One year a country has positive net exports. The next year it still has positive but larger net exports
- A. Its trade surplus fell
 - B. Its trade surplus rose
 - C. Its trade deficit fell
 - D. Its trade deficit rose
22. Which of the following is an example of Malaysia foreign direct investment?
- A. A Japan car manufacturer opens a plant in Selangor
 - B. An Indonesian citizen buys shares of stock in a Malaysia company
 - C. A Malaysia based restaurant chain opens new restaurant in Singapore
 - D. A Malaysia citizen buys stock in companies located in Thailand
23. Suppose that real interest rates in Malaysia rise relative to real interest rates in other countries. The increase would make foreigners
- A. More willing to purchase Malaysia bonds, so Malaysia net capital outflow would fall
 - B. More willing to purchase Malaysia bonds, so Malaysia net capital outflow would rise
 - C. Less willing to purchase Malaysia bonds, so Malaysia net capital outflow would fall
 - D. Less willing to purchase Malaysia bonds, so Malaysia net capital outflow would rise
24. If a country has $Y > C + I + G$, then it has
- A. Positive net capital outflow and positive net exports
 - B. Positive net capital outflow and negative net exports
 - C. Negative net capital outflow and positive net exports
 - D. Negative net capital outflow and negative net exports
25. Other things the same, a higher real interest rate raises the quantity of
- A. Domestic investment
 - B. Net capital outflow
 - C. Loanable funds demanded
 - D. Loanable funds supplied
26. If the supply of loanable funds shifts right, then the equilibrium
- A. Levels of net capital outflow and domestic investment decrease
 - B. Level of net capital outflow increases and the equilibrium level of domestic investment decreases
 - C. Level of net capital outflow decreases and the equilibrium level of domestic investment increases
 - D. Levels of net capital outflow and domestic investment increase

27. Which of the following would tend to shift the supply of ringgits (RM) in the market for foreign-currency exchange in the open-economy macroeconomic model to the right?
- A. The exchange rate rises
 - B. The exchange rate falls
 - C. The expected rate of return on Malaysia assets rises
 - D. The expected rate of return on Malaysia assets falls
28. When the real exchange rate for ringgit (RM) appreciates, Malaysia goods become
- A. Less expensive relative to foreign goods, which makes exports rise and imports fall
 - B. Less expensive relative to foreign goods, which makes exports fall and imports rise
 - C. More expensive relative to foreign goods, which makes exports rise and imports fall
 - D. More expensive relative to foreign goods, which makes exports fall and imports rise
29. Other things the same, an increase in the price level makes consumers feel
- A. Less wealthy, so the quantity of goods and services demanded falls
 - B. Less wealthy, so the quantity of goods and services demanded rises
 - C. More wealthy, so the quantity of goods and services demanded rises
 - D. More wealthy, so the quantity of goods and services demanded falls
30. As the price level rises
- A. People will want to buy more bonds, so the interest rate rises
 - B. People will want to buy fewer bonds, so the interest rate falls
 - C. People will want to buy more bonds, so the interest rate falls
 - D. People will want to buy fewer bonds, so the interest rate rises
31. When the ringgit depreciates, each ringgit buys
- A. More foreign currency, and so buys more foreign goods
 - B. More foreign currency, and so buys fewer foreign goods
 - C. Less foreign currency, and so buys more foreign goods
 - D. Less foreign currency, and so buys fewer foreign goods
32. The initial impact of an increase in an investment tax credit is to shift
- A. Aggregate demand right
 - B. Aggregate demand left
 - C. Aggregate supply right
 - D. Aggregate supply left
33. If expected inflation is constant, then when the nominal interest rate increases, the real interest rate
- A. Increases by more than the change in the nominal interest rate
 - B. Increases by the change in the nominal interest rate
 - C. Decreases by the change in the nominal interest rate
 - D. Decreases by more than the change in the nominal interest rate

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34. Which of the following central bank actions would both increase the money supply?
- A. Buy bonds and raise the reserve requirement
 - B. Buy bonds and lower the reserve requirement
 - C. Sell bonds and raise the reserve requirement
 - D. Sell bonds and lower the reserve requirement
35. Which of the following correctly explains the crowding-out effect?
- A. An increase in government expenditures decreases the interest rate and so increases investment spending
 - B. An increase in government expenditures increases the interest rate and so reduces investment spending
 - C. A decrease in government expenditures increases the interest rate and so increases investment spending
 - D. A decrease in government expenditures decreases the interest rate and so reduces investment spending
36. Assume the MPC is 0.75. Assuming only the multiplier effect matters, a decrease in government purchases of RM100 billion will shift the aggregate demand curve to the
- A. Left by RM200 billion
 - B. Left by RM400 billion
 - C. Right by RM800 billion
 - D. None of the above is correct
37. According to the Phillips curve, policymakers would reduce inflation but raise unemployment if they
- A. Decreased the money supply
 - B. Increased government expenditures
 - C. Decreased taxes
 - D. None of the above is correct
38. If policymakers decrease aggregate demand, then in the long run
- A. Prices will be lower and unemployment will be higher
 - B. Prices will be lower and unemployment will be unchanged
 - C. Prices and unemployment will be unchanged
 - D. None of the above is correct
39. The natural rate of unemployment
- A. Is constant over time
 - B. Varies over time, but can't be changed by the government
 - C. Is the unemployment rate that the economy tends to move to in the long run
 - D. Depends on the rate at which the central bank increases the money supply
40. In the long run, which of the following would shift the long-run Phillips curve to the right?
- A. An increase in minimum wage
 - B. An increase in government spending
 - C. An increase in the money supply
 - D. A decrease in the money supply

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SECTION B: STRUCTURED QUESTIONS (60 marks)**Question 1**

- (a) Saving incentives and budget surplus policies have the same effect on equilibrium real interest rate and equilibrium quantity of loanable funds. Do you agree? Use a supply-and-demand diagram to analyse the effect of these two policies on interest rate and quantity of loanable funds. (15 marks)
- (b) Explain by using the three-panel diagram (The market for loanable funds, Net capital outflow, and The market for foreign-currency exchange) the effect of budget deficit in an open economy. (15 marks)

(Total: 30 marks)**Question 2**

Explain how each of the following developments would affect the supply of money, the demand for money and the interest rate.

- (a) A decrease in the income level
 (b) The central bank decreases the discount rate
 (c) The central bank increases the reserve requirements
 (d) The central bank prints more money
 (e) An increase in unemployment rate

(3 marks each)

(Total: 15 marks)**Question 3**

Suppose that the T-account for Bank X is as follows:

Assets		Liabilities	
Reserves	RM1,000	Deposits	RM10,000
Loans	9,000		

- (a) Based on the T-account for Bank X, calculate the required reserve ratio assuming that there is no excess reserve. (2 marks)
- (b) Define the term money multiplier. Based on the T-account for Bank X, assuming there is no excess reserve; show how much the economy's money supply would increase. (5 marks)
- (c) If central bank requires banks to hold 5 percent of deposits as reserves, how much in excess reserves does Bank X now hold? (4 marks)
- (d) If central bank requires banks to hold 5 percent of deposits as reserves, how much **change** in money supply would there be? (4 marks)

(Total: 15 marks)**End of Paper**